


Memo

To: Honorable Mayor Coleen J Seng
From: Don Herz, Finance Director 
Date: October 18, 2005
Re: Analysis of the proposed sale of K-Street

Pursuant to the offer from a developer to purchase the K Street building, you have asked that I review the financial impact of the proposed sale.

I organized a group comprised of the following members to assist in this analysis:

Don Killeen, City/County Building Commission
Dave Kroeker, County Budget & Fiscal Director
Brian Pillard, County Records Management
Steve Hubka, City Budget
Pat Genzmer, State of Nebraska, Leasing Coordinator
Don Herz, City Finance Department

We began meeting in late June and determined that we would attempt to address the following financial issues:

1. Determine the gain or loss on the sale of the property based on the offer that was made by the developer.
2. Review various replacement options.
3. Determine space needs, including future capacity needs.
4. Calculate cash flow and balance sheet implications of various replacement options.

Summary

- The sale of K-Street would net approximately \$1.8 million if sold in 2006 at the appraised value.
- An RFP should be used to verify replacement options. These options should consider a long term lease, new constructions and refurbishing an existing building.
- The current building has capacity to store State records for an additional year. City/County records will be at capacity in about 4 years.

- An estimate of the additional cash flow to lease a replacement facility was estimated to be \$85,000 per year. This would be partially offset by property tax revenue when the building was placed on the tax rolls.
- The value of the K-Street property in today's dollars was estimated to be \$2.85 million when all outstanding debt is paid off in 2018.

Gain/Loss Calculation

We developed and completed an analysis (**Attachment 1**) that shows a gain on the sale of K Street of approximately \$1.65 to \$1.80 million depending on the date and terms of sale. The variance is due to a reduction in outstanding debt between July, 2005 and July 2006. The net amounts also include the estimated cost of moving all the records to a new location in the City. Pat Genzmer had some recent experiences with moving state records and was helpful in the calculations of these costs. It should be noted that the amount netted from the sale is based on the \$5.0 million appraised value.

We attempted to estimate the present value of the K-Street building at the end of the pay-off of the existing debt in 2018. Using a net income valuation approach, the estimate of the present value was \$2,849,687.

Replacement Options/Cash Flow Analysis

There are three replacement options that we considered. One was to rent space in a new or existing building that would meet the standards for a records center. Two was to purchase an existing building and convert it to a records center. Three was to build a new records center. We concluded that if this building were sold, it would be best to relocate the office space used by Purchasing, Affirmative Action, Human Rights, and the Women's Commission to leased space in close proximity to the City/County complex, pending the potential of moving them to the third floor of the City/County building when it is completed.

Robin Eschliman had provided us with material on existing buildings that could be use for records storage as well and a more significant number of office space options.

One option for the records storage area was a large warehouse building for lease in Lincoln Airpark. While there appeared to be adequate space, an onsite inspection led to the conclusion that this building would be very difficult to modify to meet the standards of a record center. The conclusion was that this was not a viable option.

Another option showed a listing of land in an industrial site listed at \$2.50 to \$4.00/FT. This proposal gave us an estimate of the cost for land if we were to build a new building.

We used the services of an engineering/architectural firm to provide an opinion of cost for a new storage space. Site visits were made to two record centers in Bellevue, NE and Des Moines, IA. The results of this analysis are attached. (**Attachment 2** is locating a building on Non-Industrial land and **Attachment 3** is locating a building on Industrial land). The non-industrial site was priced at \$10.8 million, and the industrial site was priced at \$9.0 million.

We also reviewed an offer to lease space in an industrial building in Lincoln. This proposal appeared to be the most reasonable option from a cash flow basis because the build option would add approximately \$500,000 of additional cash needs to service the new debt. We determined that this location would result in an increase in cash outflow of approximately \$85,000 to lease a space with comparable square footage and volumes. Don Killeen indicated the current K Street complex has a \$520 thousand cash outflow. His analysis of the offer for the Lincoln industrial location would require

approximately \$605 thousand of annual payments. The increase is nearly offset by additional tax collections the City and County would receive if K Street were placed on the property tax roles. If the total property tax collections for all governmental entities are considered, it appears there could be a positive cash flow. This analysis is included as attachments 4 and 5.

It should be noted that the property in Lincoln would probably require some leasehold improvements that may be the responsibility of the lessee. A rough estimate was that this could amount to approximately \$300,000. The relocation to a warehouse type building could also require the purchase of two special fork lifts costing in the range of \$30 to \$60 thousand each. The cost of paying for the leasehold improvements and equipment is included in the \$605 thousand estimate.

Not included in the cash flow estimate are any operational benefits or liabilities. The State Records management has indicated that a more distant location would not have an effect on their staffing and would be a benefit by not being located close to their other facilities in the event of some type of disaster. The County Records management has indicated a negative impact because longer travel distances will likely require additional staff time.

One additional note is that the lease option is based on an informal request. The leasing of replacement facilities should be subject to a competitive purchasing process and could possibly result in an amount slightly different from the \$605 thousand. It should be noted that if the City/County/State were to build or rent new space, the amount of space should be large enough to provide for at least 20 years of expansion.

Other observations:

We determined that the expansion capacity of the existing records center at K Street is limited to a period of two to four years. The state records area is currently at capacity, but the state is planning on moving material stored by the State Department of Health and Human Services and allowing this space to be used by the State Records Department. This should allow the state to have enough capacity for one additional year of record storage. The County Records Center is not currently at capacity, but will be in approximately three to four years at the current rate of growth. There is an area that is used to store police evidence and this could be converted to records storage, but a replacement site for the police records would be needed.

The existing K Street building is used to house a fiber optics space and the roof is used as a line of site location for wireless communications with Urban Development and potentially other Departments. If K-Street is sold, it may be cost effective to obtain an easement to continue to utilize these facilities.

We did a structural analysis of the K Street building to see if the records could be more densely stored, thus gaining additional capacity. The structural analysis indicated that the building was near its design capacity and should not be reconfigured to add more weight per square foot.

It appears the State is reluctant to see any increase in rent costs for records maintenance during the two-years of their current biennium that began on July 1, 2005.

This analysis was based on a cash sale of \$5 million. Any modifications in terms of delayed purchase of a portion of the property would have some impact on this analysis, but is not expected to be material.

K Street Sources and Uses
1-Jul-05

Sale of K Street

	<u>7/1/2005</u>	<u>7/1/2006</u>
Sales Price	5,000,000	5,000,000
Total Sources	5,000,000	5,000,000

Uses

Retire existing bonds	2,985,000	2,845,000
Retire NACO lease	61,113	36,668
Moving Costs		
State Records Management	130,000	136,500
State Historical Society	50,000	52,500
County Records Management (50% of RM)	65,000	68,250
Office Move \$ 350.00 60	21,000	22,050
Police Evidence	30,000	30,000
Professional Services	10,000	10,000
Total Uses	3,352,113	3,200,968
Net	1,647,887	1,799,032

Attachment 1

Attachment 2/1

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Attachment 2/2

SINCLAIR **hille** architects

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Attachment 3/1

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K- Street Analysis
Present Value Calculations
September, 2005

Assumptions:

Term	14
Inflator	4.0%
Additional Operational Costs	86,726
Present Value of K-Street income to 2018	2,850,000
Gain On Sale at July 1, 2006	1,800,000
Property Tax on \$12,000,000	72,000

Calculation:

Present Value of Keeping K Street

Present Value of K-Street income to 2018	<u>\$ 2,850,000.00</u>
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Present Value of Selling K Street

Present Value of increased operational costs	(\$916,942.40)
Gain on Sale of K Street in 2006	1,800,000.00
Present Value of Property Tax income	<u>760,544.85</u>
Sub Total	<u>\$1,643,602.45</u>
Gain (Loss)	<u><u>(\$1,206,397.55)</u></u>

Note: Gain on Sale is based on selling at \$5,000,000

Attachment 4

K- Street Analysis
Present Value Calculations
September, 2005

Assumptions:

Term	14
Inflator	4.0%
Additional Operational Costs	86,726
Present Value of K-Street income to 2018	2,850,000
Gain On Sale at July 1, 2006	1,800,000
Property Tax on \$12,000,000	240,000

Calculation:

Present Value of Keeping K Street

Present Value of K-Street income to 2018	<u>\$ 2,850,000.00</u>
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Present Value of Selling K Street

Present Value of increased operational costs	(\$916,942.40)
Gain on Sale of K Street in 2006	1,800,000.00
Present Value of Property Tax income	<u>2,535,149.50</u>
Sub Total	<u>\$3,418,207.10</u>
Gain (Loss)	<u><u>\$568,207.10</u></u>

Note: Gain on Sale is based on selling at \$5,000,000

Attachment 5